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TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

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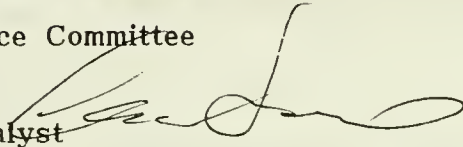
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1993 biennium nursing facility rate incr



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TO: Legislative Finance Committee

FROM: Carroll South
Senior Fiscal Analyst 

RE: 1993 Biennium Nursing Facility Rate Increases

Introduction

During the last days of the 1991 legislative session, an agreement was reached between the executive and legislative leaders to reduce appropriations in House Bill 2 by delaying planned medicaid rate increases for certain medicaid services. The table below shows the types of rate increases delayed, the amount of time each was delayed, and the reduction made in each "line item" appropriation.

<u>Rate Increase Type</u>	<u>Time Delayed</u>	<u>Gen Fund Reduction</u>	<u>Total Reduction</u>
Hospital Rate Re-Basing	7/1/92 - 10/1/92	\$ 306,871	\$1,092,068
Obstetric/Pediatric Rates	7/1/91 - 10/1/91	342,504	1,210,688
Nursing Rate Re-Basing*	7/1/91 - 10/1/91	721,353	2,558,793
	7/1/92 - 10/1/92		
Total Reductions		\$1,370,728	\$4,861,549

* Delayed both years

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The amendments approved by the legislature reducing the appropriations for these "line items" also specified that the rate increases were funded beginning on the delayed dates shown in the table.

Proposed Executive Action

The Department of Social and Rehabilitation Services (SRS) plans to increase nursing facility rates on July 1 of each year of the biennium, despite legislative action reducing appropriations based on delaying implementation of the increases. Department staff believe the increased rates can be implemented on July 1 of each year without exceeding the appropriation because of anticipated increases in resident contributions. (Medicaid pays the difference between the rate approved by the department and the amount paid by the nursing resident.) The department would not begin spending from "line item" appropriations for rate increases until the October 1 date specified in House Bill 2. Rather, the increased rates for the first three months of each year would be paid from "current level" medicaid nursing appropriations.

According to department staff, the decision to implement the rate increases on July 1, rather than October 1, is necessary to avoid potential litigation and the loss of federal medicaid funding. This report deals with only the fiscal impact of the department's proposed action, rather than any "legislative intent" or legal issues. It examines two questions:

- 1) Can these increases be funded on July 1, without risking a supplemental appropriation, given the reduction in the appropriations for rate increases made by the 1991 legislature?
- 2) Will the action taken by the department increase general fund costs, even if a supplemental appropriation is not required?

Will a supplemental appropriation be necessary?

If 1993 biennium nursing bed day numbers do not exceed the most recent LFA nursing bed day projections, and if the historical increases in resident contributions continue during the 1993 biennium, implementing the rate increases on July 1, rather than October 1, should not necessitate a supplemental appropriation.

Accurately projecting medicaid expenditure two years in advance is extremely difficult. This fact was clearly demonstrated when, during the first month of the 1991 legislative session, both OBBP and the LFA revised their published medicaid projections and agreed on one current level figure to present to the legislature. Prior to the revisions, the OBBP 1993 biennium nursing facility projections were \$8.5 million less than the LFA's. The figure finally agreed to and presented to the legislature in January was \$5.7 million more than the published OBBP projection and \$2.8 million less than the published LFA projection.

Bed Day Projections

The method used to calculate the revised 1993 biennium current level nursing appropriation approved by the legislature was a 2.0 percent increase in bed days each year of the biennium applied to the estimated (as of December 1990) fiscal 1991 level. When the revised projections were made in January 1991, bed days for the first six months of fiscal 1991 were more than 5.0 percent above the same period in fiscal 1990. The 2.0 percent annual increase projected for the 1993 biennium and approved by the legislature was considered a conservative estimate, given the increases occurring in the first six months of fiscal 1991.

However, based on May 1991 medicaid data, fiscal 1991 bed days will be less than estimated in January when 1993 biennium projections were made. As a result, the House Bill 2 "current level" nursing appropriation

will fund a nearly 3.0 percent bed day increase from the revised fiscal 1991 level to fiscal 1992. If the increase is only 2.0 percent above the fiscal 1991 level as originally estimated, there will be more bed days budgeted in the "current level" nursing appropriation than will be needed.

Resident Contributions

Increased resident contributions toward the cost of care were not considered when the agreed-to "current level" nursing expenditure projections were presented to the 1991 legislature. While historically resident contributions had increased (due to increases in their Social Security, pension, or other benefit payments), the full impacts of the "spousal impoverishment" provisions of federal law on resident contributions were not known at the time the projections were finalized. If resident contributions did increase during the 1993 biennium, it was assumed that "current level" medicaid expenditures would be offset by the amount of increased contribution, or that increased contributions would cover additional medicaid costs if 1993 biennium bed days exceeded the estimated level.

Will this proposed action "cost" the general fund?

Implementing the nursing rate increases on July 1 each year of the biennium, rather than October 1, will "cost" the state general fund more than \$700,000 during the 1993 biennium.

As shown in the table on page 1, the legislature reduced the House Bill 2 "line item" general fund appropriations for nursing rate increases by \$721,353 during the 1993 biennium, based on delaying implementation of the increases to October 1 each year of the biennium. However, the department's plan to implement the rate increases on July 1 depends upon the use of increased resident contributions to take the place of medicaid funding removed by the legislature. If the increased resident contributions

were not used to increase rates, medicaid regulations would require that they be used to offset medicaid expenditures. Every dollar from increased resident contributions used to replace the general fund removed by the legislature for rate increases is a dollar cost to the general fund.

